

Message Text

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AMEMBASSY LUXEMBOURG

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USMISSION EC BRUSSELS

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C O N F I D E N T I A L SECTION 1 OF 2 THE HAGUE 0645

E.O. 11652: GDS

TAGS: ECON, NL

SUBJ: DUTCH TO PAY FOR WELFARE STATE WITH UNEMPLOYMENT?

1. SUMMARY: THE DUTCH CENTRAL PLANNING BUREAU (CPB) HAS PREPARED AMEDIUM-TERM ECONOMIC FORECAST FOR THE NETHERLANDS. THE REPORT PAINTS A BLEAK PICTURE OF THE COMING FIVE YEARS AND FLATLY ATTRIBUTES SOME OF THE DIFFICULTIES TO POLICIES DEAR TO THE PRESENT GOVERNMENT. BECAUSE OF ITS POLITICAL SENSITIVITY THE REPORT IS PRESENTLY BEING CLOSELY HELD, BUT IT WILL BE PUBLISHED IN LATE FEBRUARY OR EARLY MARCH. END SUMMARY.

2. THE FINDING OF THE MEDIUM-TERM FORECAST IS THAT UNEMPLOYMENT IN THE NETHERLANDS PRESENTLY AT 5.4 PERCENT, WILL REMAIN AT THIS LEVEL THROUGH 1980. THIS FORECAST IS BASED NOT UPON THE LOWER RATE OF WORLD ECONOMIC GROWTH EXPECTED BY MANY
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COUNTRIES BUT ON THE ASSUMPTIOJ OF A RETURN TO THE GROWTH

CONDITIONS OF 1971-73. THE NETHERLANDS ECONOMY WILL, IN TERMS OF MOST OTHER INDICATORS, SHARE IN THE WORLDWIDE GROWTH, THOUGH TO A REDUCED DEGREE.

3. TWO FACTORS ARE EXPECTED TO CONTRIBUTE TO THE FAILURE OF THE NETHERLANDS EMPLOYMENT SITUATION TO BENEFIT FROM WORLD-WIDE RECOVERY. FIRST, THE NETHERLANDS ECONOMY WILL BE UNDERGOING A MAJOR STRUCTURAL READJUSTMENT. SECOND, AND FAR MORE IMPORTANT, THE BURDEN OF COLLECTIVE EXPENDITURES, AND CONSEQUENTLY LABOR COSTS, HAS GROWN SO HIGH IN THE NETHERLANDS THAT LITTLE NEW JOB-CREATING INVESTMENT IS EXPECTED TO TAKE PLACE. IN SEEMING CONTRADICTION, INVESTMENT IS EXPECTED TO BE EXCESSIVELY HIGH AS FIRMS RUSH TO REPLACE STILL USEFUL CAPITAL GOODS WITH ANY NEW ITEM THAT WILL REDUCE THE AMOUNT OF LABOR REQUIRED FOR PRODUCTION.

4. THE STRUCTURAL UNEMPLOYMENT FACED BY THE NETHERLANDS OVER THE COMING VIE YEARS WILL RESULT FOR THE MOST PART FROM THE END OF THE POST-WAR BUILDING BOOM. POST-WAR HOUSING SHORTAVES FOR 30 YEARS FED A CONSTRUCTION INDUSTRY EMPLOYING 400 THOUS- AND PERSONS. OFFICIAL ESTIMATES NOW INDICATE THAT REMAINING HOUSING SHORTAGES RESULT FROM THE IMMOBILITY OF THE POPULATION RATHER THAN ANY ACTUAL SHORTAGE OF HOUSING SPACE. MOST RECENT ESTIMATES INDICATE, IN FACT, THAT FOR THE COUNTRY AS A WHOLE THERE IS A SURPLUS IN HOUSING. PROJECTIONS NOW SUGGEST THAT THE CONSTRUCTION INDUSTRY WILL OFFER JOBS FOR ONLY A FRACTION OF THOSE PREVIOUSLY EMPLOYED IN THE INDUSTRY. EMPLOYMENT IN THE BUILDING INDUSTRY IS ALREADY 25 PERCENT REDUNDANT, WITH GOVERNMENT MAKE-WORK MEASURES FINANCING THE EXCESS.

5. WHILE STRUCTURAL UNEMPLOYMENT IN THE CONSTRUCTION INDUSTRY CAN BE DEALT WITH BY GOVERNMENT MEASURES SUCH AS RETRAINING AND SPECIAL SUBSIDY PROGRAMS, UNEMPLOYMENT RESULTING FROM THE UNWILLINGNESS OF DUTCH AND FOREIGN FIRMS TO INVEST IN PRODUCTIVE FACILITIES IN THE NETHERLANDS WILL BE FAR MORE DIFFICULT TO OVERCOME. THE GROWTH IN THE COSTS OF THE WELFARE STATE IN THE NETHERLANDS, HAS FALLEN HEAVILY ON CORPORATE PROFITS AND HAS BEEN THE PRIMARY REASON FOR INVESTORS RELUCTANCE. THE COLLECTIVE SECTOR -1
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I.E., GOVERNMENT TAX REVENUES PLUS SOCIAL SECUTITY PRE- MIUMS -- NOW TAKES MORE THAN 50 PERCENT OF THE DUTCH GNP. THE HIGH LEVEL OF SOCIAL SECURITY CONTRIBUTIONS IN PARTICULAR HAS HELPED TO PUSH THE LABOR SHARE OF NATIONAL INCOME IN THE NETHERLANDS TO 95 PERCENT (WHEN ADJUSTED FOR GOVERNMENT REVENUES FROM NATURAL GAS). THIS DIVISION LEAVES LITTLE OF THE NATIONAL PRODUCT FOR INVESTMENT IN NEW PRODUCTIVE CAPACITY AND VIRUTALLY NO

INCENTIVE TO DO SO. AT THE SAME TIME, DUTCH LABOR COSTS HAVE RISEN FAR FASTER THAN PRODUCTIVITY, CAUSING MANY FIRMS TO LOOK ELSEWHERE FOR NEW INVESTMENT LOCATIONS. GOVERNMENT PLANS FOR LABOR PARTICIPATION IN MANAGEMENT DECISIONS AND FOR THE FORCED USE OF "EXCESS" PROFITS FOR CAPITAL ACCUMULATION BY LABOR ADD TO THE DISINCENTIVES TO INVESTMENT.

6. THOSE INVESTMENTS WHICH ARE BEING MADE ARE SUBSTITUTING CAPITAL FOR LABOR AND NOT CREATING NEW JOBS. CPB ESTIMATES SHOW THAT THE CREATION OF NEW JOBS THROUGH INVESTMENT WAS JUST BARELY IN EXCESS OF THE LOSS OF JOBS THROUGH THE DEPRECIATION OF CAPITAL GOODS FROM 1962 THROUGH 1971-72. JOBS LOST THROUGH DEPRECIATION OF CAPITAL HAVE EXCEEDED JOBS GAINED FROM NEW INVESTMENTS SINCE THAT TIME. AT THE SAME TIME, THE AGE OF CAPITAL GOODS RETIRED HAS BEEN DROPPING RAPIDLY, SUGGESTING THAT THE HIGH COST OF LABOR IS PROMPTING PREMATURE REPLACEMENT OF CAPITAL IN ORDER TO REDUCE THE NUMBER OF EMPLOYEES. UNDER PRESENT CONDITIONS, THIS PROCESS OF EROSION IS LIKELY TO BE ACCELERATED IN THE NEXT FIVE YEARS. AS A RESULT UNEMPLOYMENT MAY REMAIN STEADY OR GROWN WHILE THE OTHER ECONOMIC INDICATORS WILL SHOW A RECOVERY. (IN FACT, THERE MAY CONTINUE TO BE NEW INVESTMENT IN CERTAIN SECTORS OF THE ECONOMY AND A CONSEQUENT STRENGTHENING OF THE DUTCH POSITION IN THESE SECTORS, SUCH AS THE CHEMICAL AND FINANCIAL INDUSTRIES, WHICH DERIVE SPECIAL BENEFIT FROM THE NETHERLANDS LOCATION AND REGULATORY POLICIES.

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C O N F I D E N T I A L SECTION 2 OF 2 THE HAGUE 0645

7. BEGIN COMMENT: GOVERNMENT OFFICIALS HAVE KNOWN OF THE PROJECTIONS OF THE MEDIUM TERM FORECAST SINCE AUTUMN, AND COMMITMENTS TOWARD HOLDING THE GROWTH OF THE COLLECTIVE SECTOR TO ONE PERCENTAGE POINT PER YEAR REFLECT AN ACKNOWLEDGEMENT OF THE PROBLEM. HOWEVER, MANY DUTCH ECONOMISTS HAVE INDICATED THAT THIS IS A COMPROMISE FIGURE WORKED OUT BETWEEN THE PRIME MINISTER AND THE FINANCE MINISTER. FINANCE MINISTER DUSENBERG IS SAID TO HAVE WANTED AN ABSOLUTE REDUCTION IN THE COLLECTIVE SECTOR, WHILE PRIME MINISTER DEN UYL REMAINED UNWILLING TO ACKNOWLEDGE THAT CONTINUED GROWTH OF THE COLLECTIVE SECTOR WOULD HANDICAP THE DUTCH ECONOMY. EVEN IF THE ENTIRE GOVERNMENT WERE TO ACCEPT THE THESIS THAT CONTINUED GROWTH OF THE COLLECTIVE SECTOR WOULD BRING INVESTMENT AND ECONOMIC GROWTH TO A HALT, THE GOV WOULD NOT NECESSARILY CHOOSE TO HALT OR REVERSE THIS GROWTH. FOR EXAMPLE, SOME OF THE LEADERS FROM THE FAR LEFT OF THE LABOR PARTY OR
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OTHER PROGRESSIVE PARTIES MIGHT INSTEAD MOVE AWAY FROM THE NETHERLANDS COMMITMENT TO A MIXED ECONOMY BY TAKING OVER MORE INVESTMENT DECISION MAKING FROM THE PRIVATE SECTOR OR BY PERMITTING SOME COLLECTIVE ORGANIZATION TO HAVE A GREATER SAY IN INVESTMENT DECISIONS.

8. ECONOMIC FORECASTS OF THIS TYPE TEND TO BE TENUOUS AT BEST. CERTAINLY, THEY ARE NO BETTER THAN THE ASSUMPTIONS UPON WHICH THEY ARE BUILT. THIS FORECAST ASSUMES NO FUNDAMENTAL CHANGE IN PRESENT ECONOMIC POLICIES WITHIN THE NETHERLANDS AND A SUBSTANTIAL RECOVERY OF THE ECONOMIES OF THE NETHERLANDS TRADING PARTNERS. TO ASSUME THAT ANY GOVERNMENT WOULD MAINTAIN ECONOMIC POLICIES WHICH WERE INCREASINGLY OBVIOUSLY UNDERMINING THE LONG TERM ECONOMIC STRENGTH OF THE COUNTRY AND CREATING A CLASS OF PERMANENTLY UNEMPLOYED (NO MATTER HOW COMFORTABLY MAINTAINED BY THE SOCIAL SECURITY SYSTEM), IS PROBABLY UNREALISTIC. THE MEDIUM TERM FORECAST CANNOT THEREFORE BE REGARDED AS AN ECONOMIC PICTURE OF THE NETHERLANDS IN 1980. IT

DOES HOWEVER UNDERLINE THE SERIOUS ECONOMIC PROBLEMS WHICH THIS GOVERNMENT OR ITS SUCCESSOR WILL HAVE TO FACE. COPING WITH THESE PROBLEMS MAY FORCE A WIDE SPECTRUM OF DUTCH POLITICAL LEADERSHIP TO CHANGE THEIR SOCIAL AND POLITICAL OBJECTIVES TO ACCOMMODATE THE LIMITS OF ECONOMIC REALITY. THIS TASK MAY PROVE DIFFICULT FOR THOSE ON THE FAR LEFT.

9. THE US MAY PLAY AN UNCOMFORTABLY VISIBLE ROLE IN DUTCH ECONOMIC PROBLEMS DURING THE PERIOD COVERED BY THE FORECAST. ALTHOUGH US FIRMS IN CERTAIN SECTORS WILL CONTINUE TO FIND THE NETHERLANDS LOCATION AND POLICIES WITHIN THOSE SECTORS (FINANCE, CHEMICALS, TRANSPORT) CONDUCIVE TO INVESTMENT, OTHERS ENGAGED IN MANUFACTURING HERE WILL BE SUBJECT TO CONTROVERSY SHOULD THEY CHOOSE TO DISINVEST AND LAY OFF WORKERS (AS AT LEAST ONE WILL DO IN THE NEAR FUTURE). AT THE SAME TIME, DUTCH FIRMS ARE LIKELY TO FIND THE POLITICAL AND ECONOMIC CLIMATE OF THE US MORE COMFORTABLE. SME FIRMS ARE ALREADY INDICATING PLANS TO INCREASE INVESTMENT IN THE US WHILE REDUCING IT HERE. END COMMENT.

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